# Another record year for the middle market

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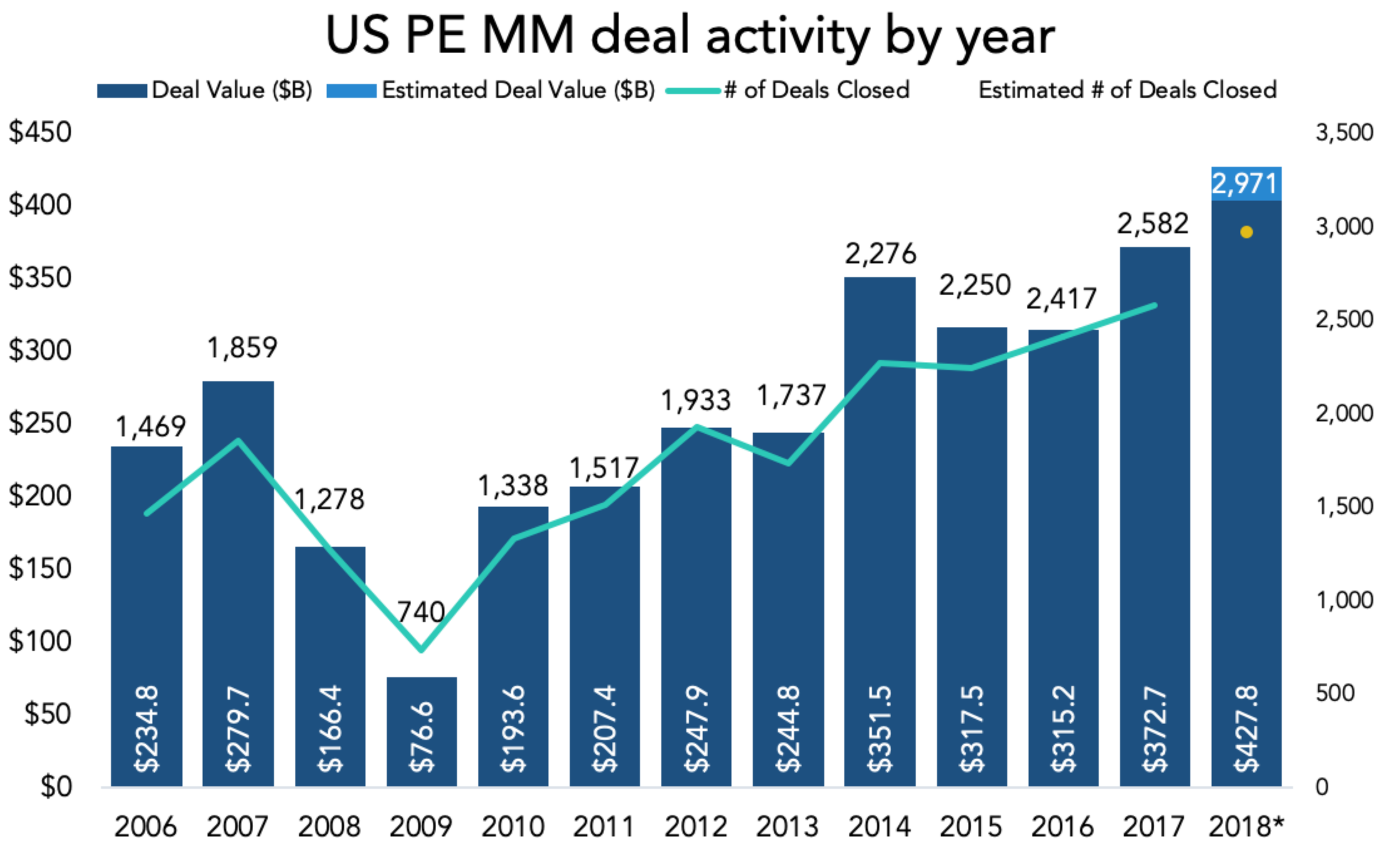


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The US middle market had quite the year. Both volume and total value easily set records by year, and the quarterly totals were even more impressive. All four quarters saw more than $100 billion invested—not only the first time that's happened, but those are the only four quarters we've tracked that eclipsed the $100b mark. Instead of one record quarter we got four, which added up to an estimated $430 billion altogether. The broader PE market has shifted, though. We've highlighted in the past that MM deals are accounting for a higher percentage of overall activity. Since 2008, the MM has accounted for at least half of all PE transactional value, peaking at 67% in three separate years (2010, 2012 and 2014). 2018, meanwhile, put a halt to that trend. That says less about the mid-range of the market and more about the higher end, where more $1b+ deals are being signed than in years past. Fund managers simply have more to spend, and larger check sizes are preferred (and often necessary) to make fund economics work.

Elsewhere, MM exit numbers were down. At face value, one could surmise that the sellers' market is winding down, but there's reason to believe that exit numbers are stronger than they appear. The middle market has been a hotbed for add-on activity, which impacts exit numbers as time goes on. For example, platform acquisitions done for $700m-$800m may add on a few smaller companies for $100m apiece, pushing the platform's implied value north of a billion. When those companies exit for at least that price, our methodology considers them "graduates" of the middle market that won't be counted in the exit totals. In all likelihood, "middle market" exits are stronger than what our numbers suggest, which likely means more LP distributions being funneled back to new MM funds. The cycle begins anew, provided that 2019 isn't dented by a recession, oil prices, Brexit problems, surprises from the Fed, trade wars, or general armageddon.

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